

ABSTRACT

What is required of microfinance organizations (MFOs)? Are these to provide cheap micro loans to 'poor' and become insolvent? Or should these should continue to provide micro loans and remain on permanent basis sustainable. From the economic and organizational perspective, it is more desirable that MFO remain sustainable institutions.

This study attempts to measure and compare sustainability of two major local MFOs that is, Punjab Rural Support Programme (PRSP) and Kashf Foundation (KF). Subsidy dependence index (SDI) framework of analysis has been applied for the estimation of index of sustainability of these organizations. The SDIs determined for PRSP are 33.936, 7.715, 2.746, 1.709, 1.717 and 3.467 for years 1999, 2000, 2001, 2002, 2003 and 2004, respectively showing that the MFO was gradually moving towards sustainability. The estimated SDIs of KF were 8.640, 5.589, 6.145, 3.969, 3.608 and 1.44 for years 1999, 2000, 2001, 2002, 2003 and 2004, respectively. The results obtained show that both the organizations are likely to remain sustainable, the latter showing greater promise than the other.

Additionally, this study seeks to determine relationship between income, assets and savings of borrowers with use of micro credit gainfully. It is empirically shown that there is positive relationship between income and micro credit, which leads to the conclusion that micro credit is available to borrowers who have some kind of livelihood. The results of the study also show that savings have positive relation to micro credit. However, assets are negatively related to micro credit.

Results show that poor are well targeted, though the percentage share of credit to 'very poor' and 'poor' is less compared to percentage share of credit to 'well-to-do'. Results also show that the poor invest micro credit in livestock. Although the amount of micro credit available to rural poor is meager, because it is insufficient to purchase buffalo, which is one of the major investment of

micro credit. The amount of micro credit is only 20 % of the total price of buffalo. Estimating net present worth (NPW) of investing in livestock in two scenarios, show positive results. This shows that investment gives return on investment and return to investment. Therefore, it can be concluded that any investment in livestock will give livelihood to poor, which will improve their income. Thus, debt-paying capacity of poor improves when micro credit is gainfully utilized.

Based on the results and analyses done, it can be concluded that micro finance is a growing sector of the economy. It is therefore, recommended that the two MFOs should increase loan portfolio to increase number of borrowers (it has its reverse side, greater supply of credit can increase inflation) and meet credit needs of credit starved market. The two MFOs should be registered under the new Micro Finance Institution Ordinance (MFIO) 2001 so that these are able to borrow funds from market to further lend to poor.